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Russian Legislation on Tax Benefits for Farmers

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Agricultural Situation

Approved By:

Levin Flake

Prepared By:

Yelena Vassilieva

Report Highlights:

On the eve of WTO accession the Russian President and the Russian Government declared their intention to increase support for Russian farmers and agribusinesses. In July 2012, the State Duma received several draft laws on support for farmers. In September 2012, the first portion of these drafts was approved by the State Duma, and on October 2nd, Vladimir Putin, the Russian President, signed the Federal Law on support for agricultural producers (FL No.161 of October 2, 2012). This Federal Law includes favorable amendments to the Tax Code of the Russian Federation for farmers, including extension of zero income (profit) tax on agricultural producers for an unlimited period.

General Information:

In the middle of June 2012 the General Council of "United Russia" with the participation of Dmitry Medvedev, the Russian Prime Minister, and the Party Leader approved a package of support measures for Russian farmers following accession to the WTO. This package of measures was submitted to the State Duma in July, and Andrey Vorobyev, the leader of United Russia in the Duma, assured that all the initiatives would be considered as a priority.

On September 19, 2012, the State Duma adopted several favorable amendments to the Tax Code of the Russian Federation for farmers. On October 2nd, 2012 these amendments were signed by the President of the Russian Federation into a Federal Law: On Amendments to Part Two of the Tax Code of the Russian Federation and on Repealing Certain Provisions of Russian Legislation (FZ-161 <http://news.kremlin.ru/media/events/files/41d41afb1d6969e41989.pdf>). These amendments to farmer taxation comprise the most significant portion of the United Party's initiatives aimed at supporting farmers in light of Russia's WTO accession. The amendments to the Tax Code of the Russian Federation include the following:

- To add the following agricultural products to the list of products subject to the preferential, 10 percent VAT: pedigree cattle, pedigree pigs, pedigree sheep and goats, pedigree horses; pedigree hatching eggs; semen of pedigree bulls, pigs, sheep, goats, and stallion; embryos of pedigree cattle, pigs, sheep, goats, and horses (amendment to point 2 of Article 164 of the Tax Code). This privilege will be in force through December 31, 2017. The current VAT on these products is 18 percent. The original draft of amendments had proposed VAT-free imports of pedigree cattle, hatching egg, and animal semen and embryos.
- To exempt the head of farmer-peasant's enterprises and private farmers from paying individual income taxes (income taxes on physical persons) on grants received from the federal/regional budgets, such as grants for the creation and development of peasant farms, lump-sum grants for beginning farmers, grants for the development of family livestock farms, and on subsidies received from the federal/regional budgets (amendments to Article 217 of the Tax Code). This privilege will cover grants and subsidies received after January 1, 2012. According to industry analysts, in 2012 grants to farmers amounted to 7 billion rubles (\$233 million). Russia's individual income tax (income tax on physical persons) is 13 percent.
- To extend zero income (profit) tax for agricultural producers for an unlimited period. At present farmers that have not switched to the regimes of unified agricultural tax [1], do not pay income tax (tax on profits). This privilege was supposed to end in 2013 be replaced by a 18 percent income tax in the period 2013-2015, and by a 20 percent income tax (general for all business) beginning 2016. During the first hearing of the draft amendments (July 2012) the Duma agreed to extend a zero tax on farmers' profits through 2015, and the preferential, 18 percent, tax on profit from 2016 to 2020. However, by the third hearing the State Duma decided to extend the zero income tax for an unlimited period, and adopted this version of amendments on September 19, 2012. According to industry experts, the farmers may save from 1.7 billion rubles (\$57 million) to 2.5 billion rubles (\$83 million) annually as a result.
- To allow consumer cooperatives (that unite more than 100 persons) to use the system of unified tax on imputed income for certain types of activities through December 31, 2017. At present this privilege works until January 1, 2013.

The Federal Law No. 161 of October 2, 2012 comes to force on January 1, 2013, but not earlier than

one month after the official publication of the law, and not earlier than the beginning of the tax period for certain taxes.

Other “United Party” initiatives that have not yet passed Duma hearings and have not been made law included the following:

- Amendments to the Federal Law "On the Development of Agriculture" which envisage up to 35 percent compensation of the amount spent by farmers on the purchase of machinery and equipment needed to modernize production. The authors interpret “modernization” widely - from energy-savings to improvement of productivity and soil conservation and protection of environment. The possible budget cost of these measures in 2013 could be 14 billion rubles (\$450 million), and will increase in 2014 -2015 to 42 billion rubles (\$1.3 billion) total. The procedure of payment of compensation and the list of machines that qualify for compensation will be determined by the government. Nadezhda Shkolnikina, the Deputy Chairman of the State Duma on Agrarian Issues, noted that this is an attempt to change the agricultural support policy from interest rate subsidies to direct support of farmer income.
- Proposals also introduce to Russian legislation the term - region unfavorable for agricultural production - as WTO regulations allow federal support of these regions. The Ministry of Agriculture may propose to consider “unfavorable” those regions where the average profitability in agriculture is below the average (although there is no clarity on how this would be determined). According to “Vedomosti”, almost half of Russian agricultural regions may fit these criteria.
- Provincial authorities may be allowed to suspend the enforcement of some federal laws. Thus, in accordance with the current legislation the local agricultural markets (so called kolkhoz markets) shall be reconstructed into permanent buildings by 2015, and this may result in closure of 43,000 of local agricultural/farmer markets.
- Amendments also may allow provincial and local authorities to rent unclaimed land (land shares) to farmers without open tenders. At present there are 22 million hectares of unclaimed agricultural land in the total 402.3 million hectares of agricultural land in Russia.

These proposed pieces of draft legislation have not passed the Duma yet, although the Duma members and the Russian government seem to be in favor of these legislations. Thus, at the last meeting of the Government on October 4th, 2012, Dmitriy Medvedev, the Russian Prime Minister, reported that the proposals on support of “regions unfavorable for agricultural production” are almost ready for formal Government consideration.

^[1] Agricultural producers may choose two schemes of tax payments: 1) to pay a unified agricultural tax that is 6 percent of the net income (gross receipts minus expenses) instead of three taxes (income tax, VAT, and tax on real estate) 2) to pay all three taxes, but the net income tax is 0 percent. Both schemes apply only to “agricultural producers”. Farmers and enterprises qualify as agricultural producers if agricultural/fishery products comprising not less than 70 percent of output.